

CITY OF STRONG CITY
CHASE COUNTY, KANSAS
INDEPENDENT AUDITORS' REPORT AND
STATUTORY BASIS FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
COUNCIL GROVE, KANSAS 66846

City of Strong City
Chase County, Kansas

STATUTORY BASIS FINANCIAL STATEMENTS
Year Ended December 31, 2011
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ALDRICH & COMPANY, LLC

315 WEST MAIN
COUNCIL GROVE, KS

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

Mayor and City Council
Strong City, Kansas

We have audited the accompanying primary government financial statements of the City of Strong City, Kansas, as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These statutory basis financial statements are the responsibility of City of Strong City, Kansas, management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2010 financial statements and, in our report dated August 22, 2011, we expressed an unqualified opinion on the respective financial statements, taken as a whole, on the statutory basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The primary government financial statements referred to above do not include the financial data of component units of the City of Strong City, Kansas, as of December 31, 2011. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described in Note 1, the City of Strong City, Kansas, prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of differences between these regulatory practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the omission of the discretely presented component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Strong City, Kansas, as of December 31, 2011, or the changes in its financial position, or where applicable, its cash flows for the year then ended.

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of the City of Strong City, Kansas, as of December 31, 2011, and its cash receipts and expenditures and budgetary results, for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Aldrich & Company, LLC

Aldrich & Company LLC
Certified Public Accountants
September 26, 2012

The City of Strong City
Chase County, Kansas

Statement 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2011

| | Beginning Unencumbered Cash Balance | Cash Receipts | Expenditures | Ending Unencumbered Cash Balance | Add Outstanding Encumbrances and Accounts Payable | Ending Cash Balance |
|-------------------------------|---|-------------------|-------------------|--|---|------------------------|
| General Fund | \$ 77,826 | \$ 200,438 | \$ 204,078 | \$ 74,186 | \$ 9,099 | \$ 83,285 |
| Special Revenue Funds: | | | | | | |
| Special Highway Fund | 8,172 | 13,204 | 15,034 | 6,342 | | 6,342 |
| Tourism Fund | 5,152 | 4,744 | 0 | 9,896 | | 9,896 |
| Special Parks & Recreation | 4,906 | 974 | 0 | 5,880 | | 5,880 |
| Capital Improvement Funds: | | | | | | |
| Depot | 18,910 | 0 | 0 | 18,910 | | 18,910 |
| Community Trail | 11,468 | 0 | 375 | 11,093 | | 11,093 |
| CSC Water Study | 5,008 | 0 | 0 | 5,008 | | 5,008 |
| Bureau of Reclamation Project | 0 | 0 | 17,195 | (17,195) | 17,195 | 0 |
| Proprietary Fund: | | | | | | |
| Utility Fund | 36,614 | 300,976 | 292,978 | 44,612 | 15,723 | 60,335 |
| Total Reporting Entity | <u>\$ 168,056</u> | <u>\$ 520,336</u> | <u>\$ 529,660</u> | <u>\$ 158,732</u> | <u>\$ 42,017</u> | <u>\$ 200,749</u> |

Composition of Cash:

| | |
|-------------------------|-------------------|
| Checking Account | \$ 71,060 |
| Certificates of Deposit | 129,514 |
| Petty Cash | 175 |
| | <u>\$ 200,749</u> |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 2

Summary of Cash Expenditures – Actual and Budget
(Budgeted Funds Only)
For the Year Ended December 31, 2011

| FUNDS | Certified Budget | Adjustment for Qualifying Budget Credits | Total Budget for Comparison | Expenditures Chargeable to Current Year | Variance Favorable (Unfavorable) |
|----------------------------|---------------------|--|-----------------------------------|---|--|
| General Fund | \$ 268,862 | \$ 0 | \$ 268,862 | \$ 204,078 | \$ 64,784 |
| Special Revenue Funds: | | | | | |
| Special Highway Fund | 16,916 | | 16,916 | 15,034 | 1,882 |
| Tourism Fund | 5,956 | | 5,956 | 0 | 5,956 |
| Special Parks & Recreation | 5,950 | | 5,950 | 0 | 5,950 |
| Enterprise Funds: | | | | | |
| Utility Fund | 318,836 | | 318,836 | 292,978 | 25,858 |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|---------------------------------|-------------------------|-------------------|-------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Taxes | | | | |
| Chase County | \$ 89,037 | \$ 82,338 | \$ 83,799 | \$ (1,461) |
| Liquor tax | 1,015 | 974 | 1,458 | (484) |
| Sales tax | 50,697 | 50,747 | 45,000 | 5,747 |
| Franchise taxes | 26,074 | 29,290 | 22,000 | 7,290 |
| Total Taxes | <u>166,823</u> | <u>163,349</u> | <u>152,257</u> | <u>11,092</u> |
| Miscellaneous | | | | |
| Licenses and permits | 1,298 | 1,049 | 1,000 | 49 |
| Municipal court | 12,940 | 8,420 | 10,000 | (1,580) |
| Housing | 3,809 | 4,193 | 4,000 | 193 |
| Theatre | 78,113 | 0 | 0 | 0 |
| Emergency aid | 10,153 | 0 | 0 | 0 |
| Miscellaneous | 5,594 | 22,847 | 6,600 | 16,247 |
| Total Miscellaneous | <u>111,907</u> | <u>36,509</u> | <u>21,600</u> | <u>14,909</u> |
| Use of Money and Property | | | | |
| Interest | 1,209 | 580 | 1,200 | (620) |
| Rent | 3,787 | 0 | 0 | 0 |
| Total Use of Money and Property | <u>4,996</u> | <u>580</u> | <u>1,200</u> | <u>(620)</u> |
| Total Cash Receipts | <u>\$ 283,726</u> | <u>\$ 200,438</u> | <u>\$ 175,057</u> | <u>\$ 25,381</u> |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|--|-------------------------|--------------|-------------|--|
| | | Actual | Budget | |
| Expenditures | | | | |
| General Government | | | | |
| Personal services | \$ 100,675 | \$ 82,921 | \$ 110,000 | \$ 27,079 |
| Commodities | 13,272 | 12,931 | 10,000 | (2,931) |
| Contractual | 160,920 | 68,081 | 55,862 | (12,219) |
| Capital outlay | 10,540 | 13,154 | 20,000 | 6,846 |
| Total General Government | 285,407 | 177,087 | 195,862 | 18,775 |
| Police and safety | 8,250 | 9,000 | 12,000 | 3,000 |
| Streets and highways | 11,545 | 16,764 | 20,000 | 3,236 |
| Parks and recreation | 268 | 227 | 10,000 | 9,773 |
| Economic development, tourism, & theatre | 0 | 0 | 20,000 | 20,000 |
| Chamber of Commerce | 1,000 | 1,000 | 1,000 | 0 |
| Dangerous structures | 0 | 0 | 10,000 | 10,000 |
| Adjustment for budget credits | 0 | 0 | 0 | 0 |
| Total Expenditures | 306,470 | 204,078 | 268,862 | 64,784 |
| Receipts Over (Under) Expenditures | (22,744) | (3,640) | \$ (93,805) | \$ 90,165 |
| Unencumbered Cash, January 1 | 100,570 | 77,826 | | |
| Unencumbered Cash, December 31 | \$ 77,826 | \$ 74,186 | | |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-2

SPECIAL REVENUE FUND

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SPECIAL HIGHWAY FUND

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|-----------------|-------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| State payments | \$ 14,154 | \$ 13,204 | \$ 14,710 | (1,506) |
| Other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Cash Receipts | <u>14,154</u> | <u>13,204</u> | <u>14,710</u> | <u>(1,506)</u> |
| Expenditures | | | | |
| Streets & highways | <u>16,757</u> | <u>15,034</u> | <u>16,916</u> | <u>1,882</u> |
| Receipts Over (Under) Expenditures | (2,603) | (1,830) | <u>\$ (2,206)</u> | <u>\$ 376</u> |
| Unencumbered Cash, January 1 | <u>10,775</u> | <u>8,172</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 8,172</u> | <u>\$ 6,342</u> | | |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-3

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

TOURISM FUND

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|-----------------|--------------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Chase County | \$ 196 | \$ 4,744 | \$ 1,000 | \$ 3,744 |
| Expenditures | | | | |
| Economic development | <u>3,000</u> | <u>0</u> | <u>5,956</u> | <u>5,956</u> |
| Receipts Over (Under) Expenditures | (2,804) | 4,744 | <u><u>\$ (4,956)</u></u> | <u><u>\$ 9,700</u></u> |
| Unencumbered Cash, January 1 | <u>7,956</u> | <u>5,152</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 5,152</u> | <u>\$ 9,896</u> | | |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-4

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SPECIAL PARKS & RECREATION FUND

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|--------------|------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Liquor tax | \$ 1,015 | \$ 974 | \$ 1,458 | \$ (484) |
| Expenditures | | | | |
| Parks & recreation | 0 | 0 | 5,950 | 5,950 |
| Receipts Over (Under) Expenditures | 1,015 | 974 | \$ (4,492) | \$ 5,466 |
| Unencumbered Cash, January 1 | 3,891 | 4,906 | | |
| Unencumbered Cash, December 31 | \$ 4,906 | \$ 5,880 | | |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-5

CAPITAL IMPROVEMENT FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

DEPOT

| | Prior Year Actual | Current Year Actual |
|------------------------------------|-------------------------|---------------------------|
| Cash Receipts | | |
| Donations | \$ 1,057 | \$ 0 |
| Expenditures | | |
| Depot | 19,100 | 0 |
| Receipts Over (Under) Expenditures | (18,043) | 0 |
| Unencumbered Cash, January 1 | 36,953 | 18,910 |
| Unencumbered Cash, December 31 | <u>\$ 18,910</u> | <u>\$ 18,910</u> |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-6

CAPITAL IMPROVEMENT FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

COMMUNITY TRAIL

| | Prior Year Actual | Current Year Actual |
|------------------------------------|-------------------------|---------------------------|
| Cash Receipts | | |
| Donations | \$ 10,384 | \$ 0 |
| Expenditures | | |
| Trail | 3,889 | 375 |
| Receipts Over (Under) Expenditures | 6,495 | (375) |
| Unencumbered Cash, January 1 | 4,973 | 11,468 |
| Unencumbered Cash, December 31 | \$ 11,468 | \$ 11,093 |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-7

CAPITAL IMPROVEMENT FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

CSC WATER STUDY

| | Prior Year Actual | Current Year Actual |
|------------------------------------|-------------------------|---------------------------|
| Cash Receipts | | |
| Receipts | \$ 22,673 | \$ 0 |
| Expenditures | | |
| CSC Water Study | 21,423 | 0 |
| Receipts Over (Under) Expenditures | 1,250 | 0 |
| Unencumbered Cash, January 1 | 3,758 | 5,008 |
| Unencumbered Cash, December 31 | \$ 5,008 | \$ 5,008 |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-8

CAPITAL IMPROVEMENT FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

BUREAU OF RECLAMATION PROJECT

| | Prior Year Actual | Current Year Actual |
|------------------------------------|-------------------------|---------------------------|
| Cash Receipts | | |
| Receipts | \$ 0 | \$ 0 |
| Expenditures | | |
| CSC Water Study | 0 | 17,195 |
| Receipts Over (Under) Expenditures | 0 | (17,195) |
| Unencumbered Cash, January 1 | 0 | 0 |
| Unencumbered Cash, December 31 | \$ 0 | \$ (17,195) |

The accompanying notes are an integral part of this statement.

The City of Strong City
Chase County, Kansas

Statement 3-9

ENTERPRISE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

UTILITY FUND

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|--------------|-------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Charges for services | \$ 232,115 | \$ 236,153 | \$ 239,000 | \$ (2,847) |
| Miscellaneous sales | 1,561 | 14,611 | 600 | 14,011 |
| Trash collection | 48,353 | 49,667 | 47,000 | 2,667 |
| Utility deposits/connection fees | 850 | 150 | 1,000 | (850) |
| PWSLF | 398 | 395 | 0 | 395 |
| Total Cash Receipts | 283,277 | 300,976 | 287,600 | 13,376 |
| Expenditures | | | | |
| Personnel services | 64,185 | 70,864 | 67,000 | (3,864) |
| Contractual services | 99,974 | 111,186 | 110,000 | (1,186) |
| Commodities | 65,096 | 65,885 | 75,000 | 9,115 |
| Capital outlay | 4,545 | 1,094 | 25,112 | 24,018 |
| Sales tax | 2,137 | 2,222 | 0 | (2,222) |
| Deposit refunds | 98 | 103 | 100 | (3) |
| Debt service | 41,624 | 41,624 | 41,624 | 0 |
| Transfers out | 0 | 0 | 0 | 0 |
| Total Expenditures | 277,659 | 292,978 | 318,836 | 25,858 |
| Receipts Over (Under) Expenditures | 5,618 | 7,998 | \$ (31,236) | \$ 39,234 |
| Unencumbered Cash, January 1 | 30,996 | 36,614 | | |
| Unencumbered Cash, December 31 | \$ 36,614 | \$ 44,612 | | |

The accompanying notes are an integral part of this statement.

City of Strong City
Chase County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Strong City is a governmental entity governed by an elected five-member council and mayor. The City's major operations include public safety, streets and highways, parks and recreation, and general administrative services. The City also operates two major enterprise activities: a sewer system and a water system. The City also contracts for solid waste collection.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The basic--but not the only--criterion for including a potential component unit within the reporting entity is financial accountability. The most significant manifestation of the criterion is financial dependence. Other manifestations of the criteria include but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Using this criterion, the Strong City Housing Authority was identified as a component unit. These financial statements do not include the Strong City Housing Authority.

The Strong City Housing Authority operates the City's housing projects. The housing authority can sue and be sued, and can buy, sell, or lease real property. The City must approve bond issuance, and the City appoints the housing authority board.

Fund Accounting

The accounts of the City are organized and operated on the basis of funds, which are used to record the City's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and City Ordinances. The following types of funds comprise the financial activities of the City.

Governmental Funds:

General Fund - Fund used as the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Funds used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Improvements Funds – Funds used to account for financial resources for the acquisition or construction of major capital facilities of the City.

Proprietary Funds:

Enterprise Funds - Funds used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

City of Strong City
Chase County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances with encumbrances being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund that the transfer is made.

The City approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense; liabilities such as deferred revenue and matured principal and interest payable; and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods sold and services received during the year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTE 2 - BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. There were no such amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

City of Strong City
Chase County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 2 - BUDGETARY INFORMATION (CONT)

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds. Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 3 - CASH AND DEPOSITS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be entirely returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

The City maintains a cash pool that is available for use by all funds. At year-end, the carrying amount of the city's deposits, excluding petty cash, was \$200,574. The bank balance was \$205,462. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by two banks resulting in a concentration of credit risk. The entire bank balance was covered by FDIC insurance. The city held no investments on December 31, 2011.

NOTE 4 - PROPERTY TAXES

The city certifies its' budget to the county clerk annually. Using this certified budget and those of other political subdivisions within the county, the county clerk spreads the annual assessment onto the tax rolls and levies property tax on November 1 of each year. The property tax is payable in two installments. The first installment is due December 20 of the same year, and the second installment is due May 10 of the subsequent year. The county treasurer collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operations.

City of Strong City
Chase County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 5 - COMPENSATED ABSENCES

Vacation for full time employees is based on years of employment. Amounts earned range from 3.33 hours per month for an employee with up to 2 years service to 10 hours per month for an employee with six or more years of service. Part-time employees working at least 20 hours per week earn vacation at the rate of 1.67 hours per month. Seasonal and temporary employees do not earn vacation. Maximum hours accumulated range from forty to one hundred and twenty hours also based on years of service. Upon separation of service, an employee is compensated for all earned but unused hours. Amounts paid for compensated absences are charged to the same respective fund as wages. No provision has been made in these financial statements for accumulated leave.

NOTE 6 - LONG-TERM DEBT

KDHE Wastewater Loan

The City entered into a loan contract for \$401,500 with the Kansas Department of Health and Environment on January 28, 2000 to make improvements to its' wastewater infrastructure and achieve compliance with the Federal Water Quality Act of 1987. On November 14, 2002, this contract was amended to reduce the loan amount to \$340,254. The project was completed in 2002. Semiannual payments began on September 1, 2001. Three payments of \$14,104 were made. This payment amount was adjusted beginning on March 1, 2003, scheduling thirty-seven payments of \$11,455. The loan carries an interest rate of 3.55% and matures on March 1, 2021.

KDHE Water Loan

The City entered into a loan contract for \$146,700 with Kansas Department of Health and Environment for the improvement for the water plant and lines on August 24, 2000. On October 14, 2002, the agreement was amended to expand the project and increase the loan contract to \$346,700. The project was completed in 2005 with \$289,815 being advanced to the City including \$1,510 of capitalized loan origination fees. The note carries an interest rate of 4.65%. A payment of \$62,500 was made in February 2006. Thirty-two payments of \$9,357 are scheduled beginning in August of 2006.

Skid-steer lease

In October 2011, the City entered into a lease with the Cottonwood Valley Bank for the purchase of a 200 Bobcat Model #773G Skid-Steer Loader and grapple. The amount financed was \$14,400. The lease carries an annual interest rate of 5.25%. One payment of \$4,000 was due upon signing the lease and three annual payments of \$3,837 are scheduled with the first payment being due October 2012. Payments are scheduled from the Special Highway Fund.

City of Strong City
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 6 - LONG TERM DEBT (CONT)

Changes in long term liabilities for the City for the year ended December 31, 2011 are as follows:

| | Interest Rate | Date of Issue | Amount of Issue | Date of Final Maturity | Balance Payable January 1 | Additions | Reductions/ Payments | Net Change | Balance Payable December 31 | Interest Paid |
|--------------------------------|---------------|---------------|-----------------|------------------------|---------------------------|------------------|----------------------|-----------------|-----------------------------|------------------|
| Revenue Bonds: | | | | | | | | | | |
| KDHE Wastewater Loan | 3.55% | 1/28/2000 | 340,254 | 3/1/2021 | \$ 199,356 | \$ 0 | \$ 15,973 | \$ 0 | \$ 183,383 | \$ 6,937 |
| KDHE Water Loan | 4.65% | 8/24/2000 | 289,815 | 2/1/2022 | 165,241 | 0 | 11,159 | 0 | 154,082 | 7,555 |
| Lease Purchase | | | | | | | | | | |
| CVB-Skid Steer | 5.25% | 10/24/2011 | 14,400 | 10/24/2014 | <u>0</u> | <u>14,400</u> | <u>4,000</u> | <u>0</u> | <u>10,400</u> | <u>0</u> |
| Total contractual indebtedness | | | | | 364,597 | 14,400 | 31,132 | 0 | 347,865 | 14,492 |
| Security deposits | | | | | 1,050 | | | (1,050) | 0 | |
| Compensated absences | | | | | <u>4,723</u> | <u>0</u> | <u>0</u> | <u>322</u> | <u>5,045</u> | <u>0</u> |
| Total long term debt | | | | | <u>\$ 370,370</u> | <u>\$ 14,400</u> | <u>\$ 31,132</u> | <u>\$ (728)</u> | <u>\$ 352,910</u> | <u>\$ 14,492</u> |

City of Strong City
Chase County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 6 - LONG TERM DEBT (CONT)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017-2021</u> | <u>2,022</u> | <u>Total</u> |
|------------------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-----------------|-------------------|
| Principal | | | | | | | | |
| Revenue Bonds: | | | | | | | | |
| KDHE Wastewater Loan | 16,546 | 17,138 | 17,752 | 18,388 | 19,047 | 94,512 | 0 | 183,383 |
| KDHE Water Loan | 11,684 | 12,233 | 12,808 | 13,411 | 14,042 | 80,761 | 9,143 | 154,082 |
| Lease Purchase | | | | | | | | |
| CVB-Skid Steer | <u>3,291</u> | <u>3,464</u> | <u>3,645</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>10,400</u> |
| Total Principal | <u>31,521</u> | <u>32,835</u> | <u>34,205</u> | <u>31,799</u> | <u>33,089</u> | <u>175,273</u> | <u>9,143</u> | <u>347,865</u> |
| Interest | | | | | | | | |
| Revenue Bonds: | | | | | | | | |
| KDHE Wastewater Loan | 6,364 | 5,772 | 5,158 | 4,522 | 3,863 | 8,585 | 0 | 34,264 |
| KDHE Water Loan | 7,030 | 6,481 | 5,906 | 5,303 | 4,672 | 12,809 | 213 | 42,414 |
| Lease Purchase | | | | | | | | |
| CVB-Skid Steer | <u>546</u> | <u>373</u> | <u>192</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,111</u> |
| Total Interest | <u>13,940</u> | <u>12,626</u> | <u>11,256</u> | <u>9,825</u> | <u>8,535</u> | <u>21,394</u> | <u>213</u> | <u>77,789</u> |
| Total Principal and Interest | <u>\$ 45,461</u> | <u>\$ 45,461</u> | <u>\$ 45,461</u> | <u>\$ 41,624</u> | <u>\$ 41,624</u> | <u>\$ 196,667</u> | <u>\$ 9,356</u> | <u>\$ 425,654</u> |

City of Strong City
Chase County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Plan description The City participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined pension benefit plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding policy K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 was 7.74%, with a 1% reduction for April through June. The City's contributions to KPERS for the years ending December 31, 2011, 2010, and 2009, were \$6,491, \$7,749, and \$6,375, respectively, equal to the required contributions for each year.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

NOTE 9 - CONTRACTS

The City has entered into an agreement with Chase County Rural Water District No. 1 to sell up to 1.5 million gallons of treated water per month. The contract is for a term of forty years expiring September 2013.

In February of 2000, the City approved a contract with Chase County to provide law enforcement services to the city. This requires monthly payments of \$750 to Chase County.

NOTE 10 – CAPITAL PROJECTS

In 2005, the City agreed to be the fiscal agent for phase II of a planned Community Connections Trail. The project is to provide walking trails from Cottonwood Falls through Strong City and to Z Bar. Cottonwood Falls is handling phase I of the project. The estimated cost of phase II is \$440,100. Fundraising for the project is underway. As of December 31, 2011, \$238,675 had been raised including \$175,000 from the W.S. & E.C. Jones Testamentary Trust. As of December 31, 2011, the City has expended \$227,582 for project expenditures.

In 2005, the City began fundraising for the Depot project. The project is to restore the old BNSF Depot in the city. In 2006, BNSF chose to donate the Depot to the city. On May 5, 2006, KDOT notified the city that it had been awarded a grant from the Transportation Enhancement Program. KDOT is to pay 80% of project construction and construction engineering costs resulting in an estimated KDOT portion of \$375,161. The city is required to fund the remaining project costs of \$122,441. As of December 31, 2011, the City has collected \$38,010 for its share of the depot project and expended \$19,100.

City of Strong City
Chase County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 10 – CAPITAL PROJECTS (CONT)

In 2009, the City agreed to participate in a regional public water supply system cooperative “The Cooperative”. The Cooperative performed a study that addressed water quality and quantity challenges facing its members (Strong City, Cottonwood Falls, Elmdale, and the Chase County RWD #1). Alternatives were being considered and recommended for the long-term needs of the members. KDHE contributed \$12,500 for this project. Strong City is accounting for the project funds. As of December 31, 2011, KDHE had provided \$12,500 and Chase County Development had provided \$23,565 of funds for the project. Total expenditures as of December 31, 2011 were \$31,057.

In 2011, the City entered into a financial assistance agreement with the United States Department of the Interior-Bureau of Reclamation (BOR) for the purpose of evaluating the feasibility of creating a Wholesale Water Supply District for the City of Cottonwood Falls, City of Strong City, Chase County Rural Water District #1 and the City of Elmdale in Kansas. The appraisal investigation will analyze the comprehensive water supply problems, needs, and opportunities throughout the municipalities and is to be completed at a total estimated cost of \$120,000 with the BOR reimbursing all costs. As of December 31, 2011, \$17,195 had been expended for the study.

A Public Wholesale Water Supply District No. 26 was formed on May 31, 2011. Members of the district are Strong City, the city of Cottonwood Falls, and Chase County Rural Water District No. 1. The water supply project is estimated to cost \$5,270,400.

In addition, the City is currently planning for potential improvements to its distribution system. The cost to the city for this project is estimated to be \$1,720,000. USDA-Rural Development has issued a letter of conditions to the city indicating a loan award of \$591,770 and grant award of \$689,000. In addition, the city is in the process of applying for a CDBG grant in the amount of \$439,230.

NOTE 11 – COMPARATIVE DATA

The amounts shown for 2010 in the financial statements are included, where practicable, only to provide a basis for comparison with 2011, and are not intended to present all information necessary for a fair presentation in accordance with the cash basis and budget laws of the State of Kansas. Interfund eliminations have not been made in the aggregation of this data.

NOTE 12 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

NOTE 13 – COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the municipality.

Management is not aware of any statutory violations for the period covered by this audit.